

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF )  
CHESAPEAKE UTILITIES CORPORATION )  
FOR APPROVAL OF A CHANGE IN ITS GAS ) PSC DOCKET NO. 16-0908  
SALES SERVICE RATES (“GSR”) TO BE )  
EFFECTIVE NOVEMBER 1, 2016 )  
(FILED SEPTEMBER 1, 2016) )**

**DIRECT TESTIMONY OF  
JASON R. SMITH  
ON BEHALF OF THE STAFF OF THE  
DELAWARE PUBLIC SERVICE COMMISSION**

**FEBRUARY 22, 2017**

1    **Q.     Please state your name and business address.**

2    A.     My name is Jason R. Smith, and my business address is 861 Silver Lake Boulevard,  
3           Cannon Building, Suite 100, Dover, Delaware 19904.

4    **Q.     By whom are you employed and in what capacity?**

5    A.     I am employed by the Delaware Public Service Commission (the “Commission”) as a  
6           Public Utility Analyst III.

7    **Q.     How long have you been employed by the Delaware Public Service Commission?**

8    A.     I have been employed by the Commission since April of 2010.

9    **Q.     What is your educational background?**

10   A.     I graduated with an Associate of Applied Science Degree in Computer Information  
11           Technology with emphasis in Microcomputer & Networking from Delaware Technical  
12           and Community College in 2005. In 2008, I received a Bachelor of Science Degree in  
13           General Studies from Wilmington University. And in 2016, I graduated with a Masters  
14           of Business Administration from the same institution.

15   **Q.     Briefly describe your duties and responsibilities with the Commission.**

16   A.     Apart from being the case manager for this proceeding, I examine monthly, quarterly, and  
17           annual reports for Chesapeake Utilities Corporation – Delaware Division (“Chesapeake”  
18           or the “Company”). This includes the examination of all monthly over/under collection  
19           reports, monthly financial statements and summary trial balance reports, quarterly gas  
20           hedging reports, quarterly rate of return reports, annual supply plans, and main extension

1 filings. I also have typically served as the case manager for a number of various types of  
2 filings made by Chesapeake since 2012.

3 My other duties and responsibilities with the Commission include serving as a case  
4 manager or team member to perform reviews of various utility applications such as rate  
5 case filings, stock and debt issuances, or requests for tariff revisions. Additionally, I  
6 prepare reports and other schedules in other proceedings, make written recommendations  
7 to the Commission, and perform other related tasks as assigned. In conjunction with my  
8 work in rate case filings, I participate in the planning and execution of the required audits  
9 of regulated companies, including performing a review of supporting documentation at  
10 utilities' offices to evaluate and make recommendations regarding the financial and  
11 managerial condition of those utility companies.

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. I was assigned as Case Manager to review Chesapeake's Application for a Change in Its  
14 Annual Gas Sales Service Rates (the "Application") to ensure that the proposed rates are  
15 just and reasonable and that they comply with Chesapeake's tariff. I have examined  
16 Chesapeake's Application, including the testimonies and schedules; Chesapeake's  
17 responses to Staff and the Division of the Public Advocate's ("DPA") data requests; prior  
18 GSR dockets, orders, prior settlement agreements; and Chesapeake's quarterly hedging  
19 reports and the Long-Term Supply and Demand Strategic Plan ("Supply Plan") for the  
20 period 2015/2016 through 2019/2020. My testimony will include a recommendation to  
21 the Commission regarding the treatment of this Application.

1   **Q.   Please identify other analysis performed on behalf of Staff as part of this**  
2       **proceeding.**

3   A.   Mr. Jerome D. Mierzwa, Vice President of Exeter Associates, Inc., was retained to  
4       review forecasting demand requirements, seasonal and design day capacity, lost and  
5       unaccounted-for gas, overall gas procurement and hedging purchasing practices, and the  
6       management of the Company's gas supply as part of this proceeding. Mr. Mierzwa will  
7       also be submitting direct testimony detailing his findings and recommendations regarding  
8       the treatment of this Application.

9   **Q.   How is your direct testimony organized?**

10  A.   My direct testimony is presented as follows:

11           I.     Summary of the Company's Application and Staff's recommendation  
12                 related to the approval of the gas sales rates and firm balancing rates  
13                 proposed by the Company; and

14           II.    A review of the terms of the settlement agreement and the Company's  
15                 compliance with such agreement reached in the most recent GSR  
16                 proceeding for the Company, which is PSC Docket No. 15-1362.

1    **I.    Summary of the Company's Application**

2    **Q.    Please provide a brief summary of the Company's Application.**

3    A.    On September 1, 2016, Chesapeake filed the Application with proposed changes in its  
4    Gas Sales Service Rate ("GSR") as follows:

- 5            •    to increase its GSR for customers taking service under rate schedules RS-1, ERS-  
6                    1, RS-2, ERS-2, GS, EGS, MVS, EMVS, and LVS from \$0.681 per Ccf to \$0.818  
7                    per Ccf; and
- 8            •    to increase its GSR for customers taking service under rate schedules GLR and  
9                    GLO from \$0.218 per Ccf to \$0.360 per Ccf; and
- 10           •    to increase its GSR for customers taking service under rate schedule HLFS from  
11                \$0.488 per Ccf to \$0.628 per Ccf; and
- 12           •    to decrease its firm balancing rate for transportation customers taking service  
13                under rate schedule GS and EGS from \$0.081 per Ccf to \$0.076 per Ccf; and
- 14           •    to increase its firm balancing rate for transportation customers taking service  
15                under rate schedule MVS and EMVS from \$0.091 per Ccf to \$0.100 per Ccf; and
- 16           •    to increase its firm balancing rate for transportation customers taking service  
17                under rate schedule LVS from \$0.073 per Ccf to \$0.089 per Ccf; and
- 18           •    to decrease its firm balancing rate for transportation customers taking service  
19                under rate schedule HLFS from \$0.024 per Ccf to \$0.017 per Ccf; and
- 20           •    to decrease its firm balancing rate for transportation customers taking service  
21                under rate schedule ITS from \$0.014 per Ccf to \$0.012 per Ccf; and

1 As authorized by Order No. 8943 (September 20, 2016), these rates went into effect on a  
2 temporary basis, subject to refund and pending further review and a final decision by the  
3 Commission, for gas service usage on and after November 1, 2016.

4 **Q. Were there any subsequent revisions to the GSR?**

5 A. No. To date, I am not aware of any revisions to the GSR filed by the Company.

6 **Q. What impact will this proposed GSR Application have on an average residential**  
7 **heating customer as compared to the last GSR filing?**

8 A. When compared to the rates that were previously in effect, a typical residential heating  
9 customer that uses 120 Ccf per month during the winter heating season will experience an  
10 increase of approximately 13.14%, or \$16.44 per winter month. An average residential  
11 customer using 700 Ccf per year will experience an annual increase of approximately  
12 11.25%, or \$7.99, per month depending on their usage characteristics.

13 **Q. Did you review the schedules and calculations contained in the Application for**  
14 **accuracy and conformance with the Company's existing GSR tariff?**

15 A. Yes, pursuant to 26 *Del. C.* §303(b), the Company has complied with and met the filing  
16 requirements needed to allow it to implement the proposed rates. I have also reviewed  
17 and verified the mathematical accuracy of the schedules and calculations provided in the  
18 Application and determined that they conform to the Company's GSR tariff.

19 **Q. Does Staff have any recommendation related to the GSR and firm balancing rates**  
20 **requested by the Company as part of its September 1, 2016 Application?**

1     A.     Yes. Staff has reviewed the Company's original Application including the supporting  
2           schedules. Based on that review, as well as the responses and documentation provided  
3           during discovery, Staff recommends that the Commission approve the GSR and firm  
4           balancing rates as submitted by the Company. Staff finds that the rates are just and  
5           reasonable and are in the public interest.

1   **II.    Review of Settlement Agreement Terms and Compliance with PSC Docket No. 15-**  
2       **1362**

3   **Q.    Please summarize the provisions of the settlement agreement reached in PSC**  
4       **Docket No. 15-1362 and your understanding of the Company’s compliance with**  
5       **those provisions.**

6   **A.    The settlement agreement reached by the parties in PSC Docket No. 15-1362 and**  
7       **approved by Order No. 8924 (August 9, 2016) (the “15-1362 Order”) included the**  
8       **following terms:**

- 9           • The Company agreed to true up the capacity release revenues through the  
10           monthly filing of its over/under collection report. The Settling Parties had  
11           agreed to a true up in the amount of \$62,043 once actual capacity release  
12           revenue data had been made available versus the use of estimated data in the  
13           original filing.<sup>1</sup> It appears that the Company has complied with this provision  
14           as made evident through its continued filing, and subsequently Staff’s review,  
15           of the monthly over/under collection report incorporating the capacity release  
16           credits into the calculations for the firm cost of gas.
- 17          • The Company agreed to credit sales customers an amount of \$19,897 after an  
18           error in calculation methodology was discovered. This error was due to a  
19           change in methodology used originally by the Company compared to a  
20           methodology that was agreed upon by the Settling Parties. The Company has  
21           applied this credit to sales customers, as made evident through Schedule B

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<sup>1</sup> The Settling Parties, or signatories, in the settlement agreement reached in PSC Docket No. 15-1362 were Chesapeake Utilities Corporation, the Division of the Public Advocate, and the Delaware Public Service Commission Staff.



1 and Schedule F of the direct testimony filed by Mr. Matthew M. Everngam,  
2 thus ensuring Chesapeake's compliance with this provision.

- 3 • The Company also agreed to continue to monitor the level of its over/under  
4 collection balance to determine whether a change in the methodology used to  
5 calculate its GSR rate is necessary. I have been monitoring Chesapeake's  
6 monthly filings of its over/under collection report. The most recent estimate  
7 of the Company's projected over-collection is \$562,708, or 1.74% of the total  
8 projected firm gas costs for the twelve months ending October 31, 2017.<sup>2</sup>  
9 This percentage is below the threshold of 4.5% as identified on Sheet No. 42  
10 of the Company's Delaware Division tariff.<sup>3</sup> The Settling Parties have  
11 continued to monitor the Company's over/under collection balance and at this  
12 time have not considered any changes in methodology regarding this  
13 calculation and its effects to the GSR.
- 14 • The Company agreed to continue to utilize its annual Long-Term Supply and  
15 Demand Strategic Plan ("Supply Plan") as a mechanism by which to notify  
16 the Settling Parties of the need for all new capacity additions. When the  
17 Company needs to acquire capacity in any given year that was not previously  
18 identified in its most recent Supply Plan as being required in that year, the  
19 Company agreed to continue to provide the information agreed to in the  
20 Settlement Agreements in PSC Docket Nos. 08-296F and 09-398F regarding

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<sup>2</sup> This report was filed with the Commission on January 17, 2017 with the calculation based on actual information for November 2016 and estimated data from December 2016 through October 2017.

<sup>3</sup> Section XVI of the Company's Gas Sales Service Rates Tariff states, "The rates computed under this rate schedule shall remain in effect for the projected period provided the latest estimated over collection does not exceed 4½% or the latest estimated under collection does not exceed 6% of the actual firm gas costs incurred to date along with the Company's latest firm gas cost estimates for the remainder of the calculation of the over/under collection period (over/under period)."

1 Eastern Shore Natural Gas Company (“ESNG”) capacity acquisitions and  
2 other potential upstream capacity additions as well. The Company agreed to  
3 provide this information for both ESNG and upstream capacity on a  
4 confidential basis only. The Company also agreed to continue to review its  
5 design day forecasting methodology each year at the time the Supply Plan is  
6 developed to ensure its validity. The Company also agreed to review and  
7 comment on any alternative design day forecasting methodology proposals  
8 submitted by either Staff or the DPA during the course of any review of the  
9 Company’s Supply Plan. In my opinion, the Company has always readily  
10 addressed any informal questions that result from the submissions of its  
11 Supply Plans. Additionally, it appears the Company has complied with the  
12 provision which requires it to give notice to Staff and the DPA of any capacity  
13 acquisitions.

- 14 • The Company’s current Asset Management Agreement (“AMA”) is set to  
15 expire on March 31, 2017. At the time of the 15-1362 Order the Settling  
16 Parties were continuing to have ongoing discussions as to whether the  
17 Company should issue a Request for Proposal for a new AMA, or enter into  
18 an agreement with the Company’s marketing affiliate, Peninsula Energy  
19 Services Company, Inc. (“PESCO”). Ultimately, after negotiations among the  
20 Settling Parties regarding the terms of the proposed AMA, the Commission  
21 authorized Chesapeake to utilize its marketing affiliate, PESCO, as its asset

1 manager.<sup>4</sup> This satisfies the Company's commitments regarding the AMA  
2 outlined in paragraphs 10 through 12 of the settlement agreement.

- 3 • Under the new AMA, effective April 1, 2017, the Company will continue to  
4 receive certain fixed margins on a monthly basis. The Settling Parties agreed  
5 that with respect to said fixed margins, the Company shall be allowed to  
6 continue to retain seven and one half percent (7.5%) of the fixed margins,  
7 with the remaining ninety-two and one half percent (92.5%) being credited to  
8 ratepayers in the Company's GSR rates. The Company has complied with  
9 this provision as made evident by reviewing Schedule A.2 of the Application  
10 which at the time of the filing showed the projected amount of margin sharing  
11 to be \$2,695,346.
- 12 • The 15-132 Order also provided that Chesapeake would be allowed to  
13 continue to recover the Texas Eastern Transmission, LP ("Texas Eastern")  
14 capacity costs and the ESNG capacity costs associated with the Texas Eastern  
15 inter-connect. With respect to any capacity release revenues received outside  
16 of the AMA associated with this capacity, one hundred percent (100%) of any  
17 capacity release revenues associated with the release of this capacity would be  
18 credited to the GSR. Staff believes that there are no issues with this activity  
19 because the Company has not projected any capacity release revenues  
20 associated with the Texas Eastern capacity for the current GSR period  
21 received outside of the AMA.

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<sup>4</sup> See *Application of Chesapeake Utilities Corporation*, Docket No. 15-1362, Order 8954 (October 6, 2016).

- 1           • Chesapeake agreed to provide Staff and the DPA with periodic updates  
2           regarding any intervention by the Company in Federal Energy Regulatory  
3           Commission (“FERC”) proceedings and the actions taken by the Company on  
4           behalf of the Company’s ratepayers, including, but not limited to, an  
5           enumeration of each issue and the position that the Company is actively  
6           pursuing. The Company also agreed to provide such periodic updates to Staff  
7           and the DPA subject to the Company’s ability to provide this information to  
8           Staff on a confidential basis when appropriate. Staff continues to monitor  
9           FERC proceedings which may involve intervention by the Company,  
10          particularly a filing made by ESNG last month for a general system-wide rate  
11          increase.<sup>5</sup> To date, Staff believes that the Company has complied with this  
12          provision of the settlement as Chesapeake has intervened in the ESNG  
13          proceeding on February 2, 2017.<sup>6</sup> It remains to be seen what position the  
14          Company may pursue in regards to the ESNG filing as this matter is only just  
15          beginning to get underway.
- 16          • Lastly, as agreed in prior dockets, the Company was to continue the following  
17          practices: (a) the Company will notify the parties of any supplier refunds that  
18          may impact the GSR charges; (b) the Company will continue to include in  
19          future GSR applications an update on steps taken to mitigate the effects of  
20          changes in gas costs; (c) the Company will provide information on the total  
21          sales volumes, costs, and margins by month for Interruptible Gas  
22          Transportation sales as part of its GSR applications; and (d) the Company will

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<sup>5</sup> See FERC Docket No. RP17-363-000, filed January 27, 2017.

<sup>6</sup> The Delaware Public Service Commission intervened in this matter on January 30, 2017.

1 calculate the impact on its proposed GSR rates had a thirty-year average  
2 degree days been used and provide such information as part of the discovery  
3 process, when and if requested. To date, Staff is not aware of any failures by  
4 the Company to provide the above mentioned notifications and practices to  
5 Staff and the DPA. Thus, Staff believes that the Company has continued to  
6 comply with this provision of the 15-132 Order.

7 **Q. Do you have any additional matters to address?**

8 A. No.

9 **Q. Does this conclude your testimony in this proceeding?**

10 A. Yes.